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Purchasing Index Rises to 53.2%

New Orders and Production Increases

Price Increases Up Sharply

Analysis by the Business Survey Committee; chairman, Robert J. Bretz, C.P.M., director of purchasing and distribution, Pitney Bowes, Inc.

The *Report on Business* is published monthly by the National Association of Purchasing Management, based on data compiled from replies to questions asked of purchasing managers in some 250 industrial companies. Membership of the Business Survey Committee is diversified geographically, based on value added by state, and by Standard Industrial Classification category, based on each industry's contribution to national income.

October Report

The economy expanded slightly in September, say the nation's purchasing managers in their latest **Report on Business.** Production rose from the already high level of August. This had been anticipated because of the significant increase in new orders last month. New orders were also higher in September, suggesting continued healthy production over the next thirty to sixty days. Inventories declined again but the rate of decline was lower for the third consecutive month. Employment remained at its previously depressed level. Prices increased rather sharply in September to a level not seen since August 1984. Relative to prices, 67% of members responding to a special question said they purchased a significant amount of imports. Of those importing, 56% had not received a price increase in the last three months while 44% had. Of the 44% paying higher import prices, 39% said they plan on switching to domestic suppliers.

The report was issued today by Robert J. Bretz, C.P.M., chairman of the National Association of Purchasing Management's Business Survey Committee and director of materials management, Pitney Bowes, Inc. Mr. Bretz said, "In September, the economy continued the expansion registered in August, which reversed the downtrend in three of the previous four months. The high rate of new orders in September should mean healthy production levels in October and November and a continuation of the expansion."

The **Purchasing Managers' Composite Index** rose to 53.2%, up slightly from 52.6% in August. This is the second consecutive month this leading indicator has registered over 50% and the sixth time in 1986. A reading above 50% generally indicates that the economy is in an expanding phase: below 50%, that the economy is generally declining. The index is based on analysis by the U.S. Department of Commerce. Except for this index, the information in this report is not seasonally adjusted.

Net Difference

In each category measured, this report shows a net difference. It is the difference between the number of responses in the positive direction (higher, better, faster) and the negative direction (lower, worse, slower). Analysis of the month-to-month difference compares the rate of change.

Employment

The depressed level of employment changed little in September. Once again, more than twice as many members reported lower employment (27%) than higher (13%), this is the twenty-fourth consecutive month that more members have reported employment as lower rather than higher.

Employment %	Higher	Same	Lower	Net Differ.
September	13	60	27	−14
August	11	66	23	−12
July	10	67	23	−13

Buying Policy

In September, lead times for capital expenditures increased for the second consecutive month as 60% of members reported lead times of six months or longer, up from 58% in August. More importantly, this is the most since September 1984 (61%). Increased lead times generally reflect increased buying activity. In a special question regarding the impact of the enactment of the proposed tax reform bill, 54% of members indicated it would not affect their 1987 capital investment plans; 27% said it would affect them negatively; 2% positively; and 16% were uncertain. Lead times for production materials expanded slightly as 20% of members reported lead times of 90 days or longer compared to 16% in August. Lead times for maintenance, repair, and operating (MRO) supplies remained virtually unchanged in September.

Production Materials %	Hand to Mouth	30 Days	60 Days	90 Days	6 Months and Longer
September	18	39	23	14	6
August	15	45	24	11	5
July	18	40	25	10	7
MRO Supplies %					
September	44	43	6	7	0
August	45	42	6	7	0
July	42	46	6	5	1
Capital Expenditures %					
September	16	3	7	14	60
August	10	4	10	18	58
July	12	8	7	22	51

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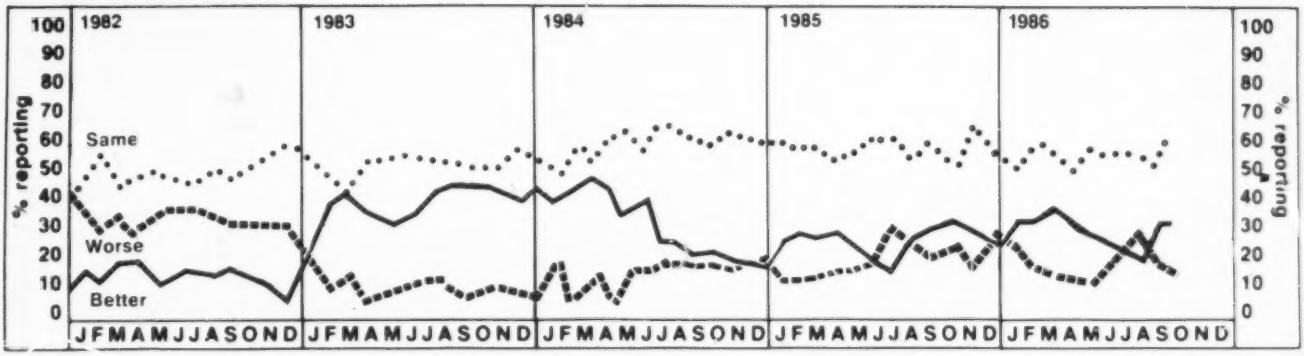
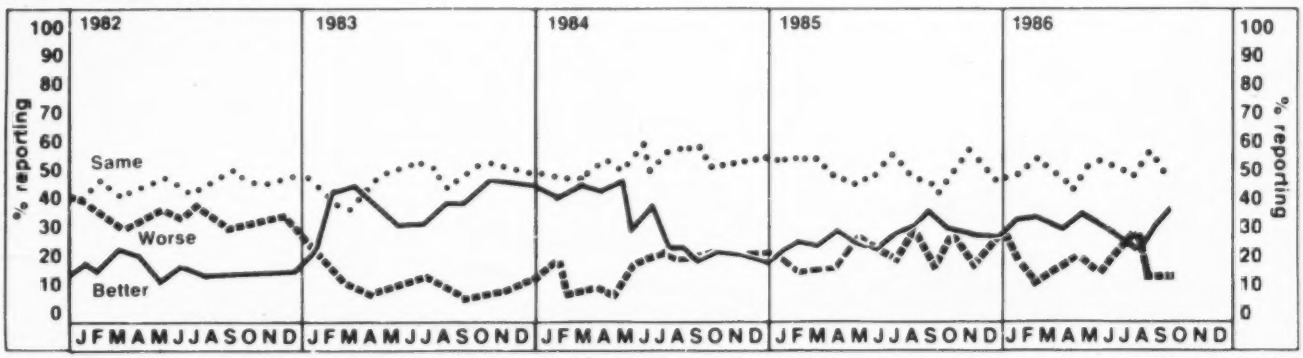
Production



Production continued to expand in September at an even higher rate than August. The 13% of members reporting production as worse is the lowest since March 1986 (12%). Since new orders also expanded in September, it is likely that production will remain strong into November.

Production %	Better	Same	Worse	Net
September	27	60	13	+14
August	27	54	19	+ 8
July	17	55	28	−11

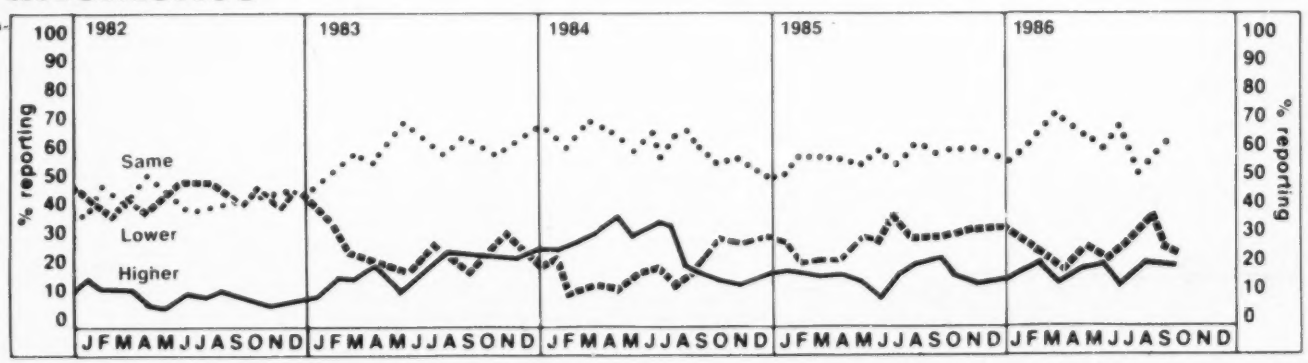
New Orders



For the second consecutive month, new orders expanded in September. In September, the net difference between those reporting better new orders (35%) and those reporting worse (15%) was a plus 20, the highest difference since February 1986 (+20).

New Orders %	Better	Same	Worse	Net
September	35	50	15	+20
August	28	57	15	+13
July	23	52	25	− 2

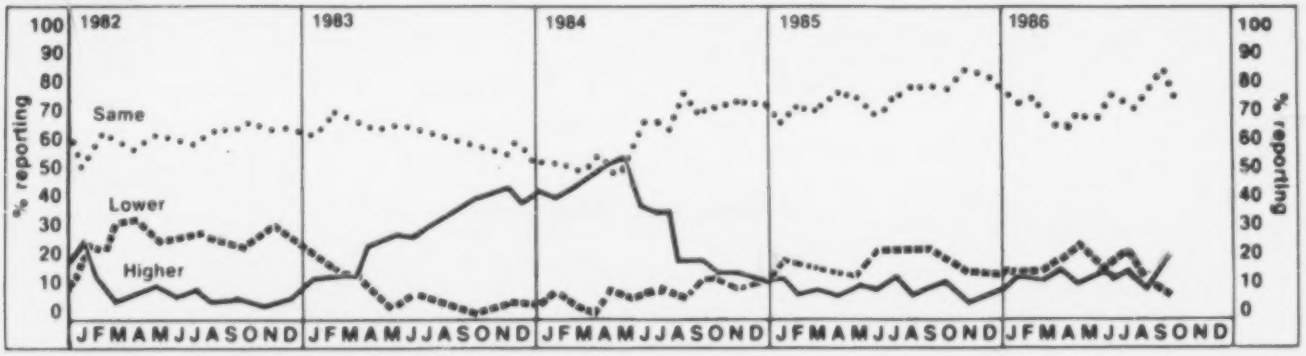
Inventories



Inventories declined again in September, marking the twenty-fifth consecutive month that more members have reported lower inventories compared to higher. However, the rate of decline is lower for the third consecutive month.

Inventories %	Higher	Same	Lower	Net
September	18	61	21	− 3
August	18	58	24	− 6
July	17	50	33	−16

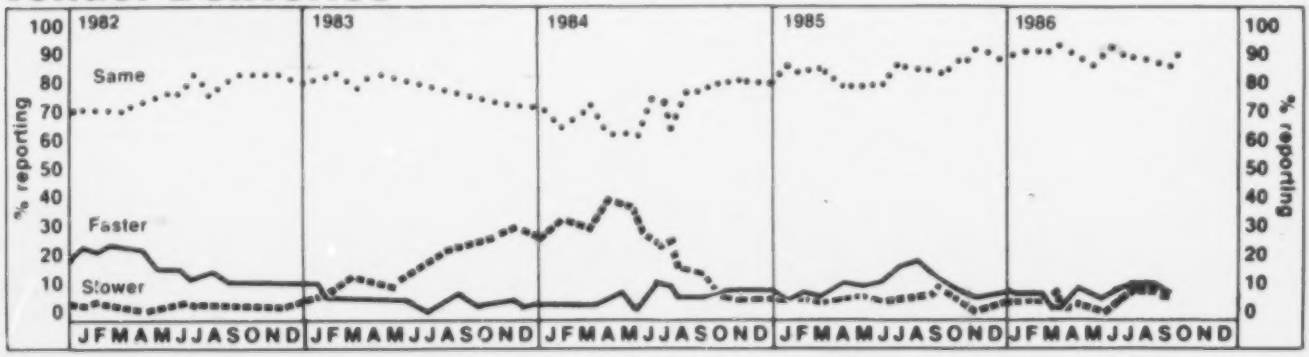
Prices



The 19% reporting higher prices in September is more than three times those reporting lower prices (6%) — the most since September 1984. This suggests the economy may be strong enough to support price increases. Of purchasers who import heavily, 44% reported receiving price increases over the past three months. Fuel oil prices were also reported higher, reversing an eight-month downtrend.

Prices %	Higher	Same	Lower	Net
September	19	75	6	+13
August	9	81	10	− 1
July	13	72	15	− 2

Vendor Deliveries



The speed of vendor deliveries was virtually unchanged in September. This would indicate that although production is up, vendors are not finding it difficult to meet purchasers' shipping requirements.

Vendor Deliveries %	Faster	Same	Slower	Net
September	5	90	5	0
August	7	87	6	+ 1
July	6	88	6	0

Specific Commodity Changes

September marks the sixth time in seven months that titanium dioxide was reported in short supply. Nevertheless, it is the only item reported in short supply in the last twenty months. Corrugated shipping containers were reported higher in price for the sixth consecutive month and folding cartons for the second consecutive month. Fuel oil prices were reported higher in price in September after eight consecutive months of reported price decreases. Steel was reported higher in price in September, the first time since being reported higher in February, March, and April of 1986. Only two items were reported as lower prices; methanol for the third consecutive month and petroleum products.

UP in Price: Corrugated shipping containers, folding cartons, caustic soda (used heavily in paper making and petroleum refining), steel, and fuel oil

DOWN in Price: Methanol (a work horse chemical) and petroleum products

In SHORT Supply: Titanium dioxide (a lead-free pigment used heavily as a whitener in coatings and other industrial applications)

The National Association of Purchasing Management's *Report on Business* records the actual changes and rates of change in five important categories of data: production, new orders, employment, inventories and vendor deliveries. These five components, as reported, are not adjusted to compensate for seasonal variations.

Economists have devised a variety of formulas to compensate data for seasonal variations. N.A.P.M. cooperates with the U.S. Department of Commerce, which prepares the monthly Purchasing Managers' Composite Index for publication by N.A.P.M. The Department of Commerce adjusts the five above-mentioned components of the *Report on Business*, applies various weights to each and combines them into a single index number. The Composite Index is based on analysis by the U.S. Department of Commerce, and is the only part of the report adjusted for seasonal variations.

Note: The next issue of the *Report on Business* will be available Nov. 3, 1986.

Commodity Reports

Textiles

Prepared by the N.A.P.M. Textile Committee; chairman, Harold Scott, C.P.M., K-Products, Inc., Orange City, IO. Contributors to this report include: Larry N. Parkes, C.P.M., Champion Products, Inc., Rochester, NY; Stanley Albright, C. H. Masland & Sons, Carlisle, PA; and Richard Blumstein, Steelcase, Inc., Grand Rapids, MI.

Cotton, Polyester, and Greige Goods

A 0% to 3% increase for cotton, polyester, and greige goods is being anticipated for 1987. Some price reductions are expected for yarn items due to the farm subsidy program. Generally, prices are off 10¢ to 15¢ per pound depending on the start point. New prices appear to compare closely with the fourth quarter of 1985. Coupled with the cotton price increase, polyester and acrylic staple should stay the same or go down to protect against the loss of market share to cotton; this may also be controlled by supplier manipulation which could hold the price. In the fabric area, nylon pricing increased 7% in June. This increase will show effects during the first quarter of 1987. Cotton woven goods should hold or see reductions in line with the farm subsidy program. Nylon taffeta should be up 5% to 8% due to the supply and demand factors, as well as, the dyers not having increased their prices since 1984. There is no anticipated polyester filament increase at this time. Continued pressure on basic commodity items will be due to the anticipation of 1987 being a strong fleece, terry, and cotton sweater year. Material costs will be the driving force for supply and demand. In addition, these areas will be tempered, to a certain extent, by limitations of available commission dyeing and finishing capacities. The fact that the Presidential veto was not overridden should play an important role in any downward business adjustment domestically for those retail buyers that have hedged pending the outcome of this legislation.

Carpet

The supply of raw materials is adequate except for continued problems with jute. Material prices are mostly steady except for carpet wools, which are expecting changes due to the currency exchange variations.

Specialty Fabrics

With the pricing of cotton and manmade fibers declining and the current under use of production, specialty fabrics and converting should continue to see short lead times with slightly falling prices.

U.S. wool consumption is up due to apparel usage, therefore, if wool is used in blends, it will require accurate forecasting. Both the woolen and worsted systems are experiencing these demands, predictions of usage will have to be fairly precise to be assured of a steady supply and price.

Non-Ferrous Metals

Prepared by the Non-Ferrous Metals Committee, chairman, George R. A. Milne, C.P.M., Delta Faucet Corporation, Indianapolis, IN

Magnesium

Indications are that magnesium prices will be dropping by approximately 5%. This is caused by a supply exceeding demand. The long-term outlook is that the pricing will drop even more over the next ten years. There is increased production capacity in North America with a new facility being built in Canada next year. At the same time, there is a projected decline in the use of magnesium commencing in 1990 — except for the automotive industry. Fifty percent of all magnesium is used in the alloying of aluminum metal. The recycling of aluminum has already caused a decrease in the use of magnesium. This trend will continue in the U.S., however, the use of aluminum cans is in its infancy in Europe and Asia so demand will increase there.

The use of magnesium by steel mills will decline from 1990 to 1995 as the mills switch to less expensive materials. The automotive industry will, however, continue to increase its use of magnesium as it has done for the past seven to eight quarters. Tremendous efforts have been made to solve the corrosion problem inherent in magnesium, but few improvements have been made. This still remains a major obstacle to the use of magnesium in the aerospace industry. (Sharon Sinke, C.P.M., Frost, Inc., Grand Rapids, MI.)

Nickel

Plating grade nickel prices remain weak despite repeated industry efforts to bolster them. Prices range from $2.19 to $2.24 per pound, and current range is now $2.20. Current prices are nearly a mirror image of those offered in 1976.

The nickel industry is experiencing the following disruptions throughout the U.S. Sinco has curtailed production for ten weeks. The Phillipines producer source has shut down due to inventories, while the Greek Government is having thoughts of production curtailment. Russia has been dumping nickel in Europe to further compound the excess inventory situation. Overall, inventories remain "moderate" even with this "disruption" in the marketplace.

Consumption of nickel in the stainless steel industry is affected by the disappearance of producers. Although nickel producers continue to promote the scenario of tightening supplies and rising prices, little change is anticipated.

There is no change in price over the short term, however, in six months a price jump of $2.50 per pound could be evident if the current business environment has any increasing changes. (George R. A. Milne, C.P.M., Delta Faucet Corporation, Indianapolis, IN.)

Brass and Bronze

Although the "soft" dollar has been a factor in the increased production for most domestic mills, ample capacity continues to exist.

Rod deliveries are being quoted at 2 to 3 weeks for most sizes. Leadtime for coil is approximately 4 to 5 weeks.

Since we do not project any drastic forward movement in the brass scrap market, it is anticipated that the price for brass and bronze will fluctuate within a very narrow band through 1986.

An adequate supply should prevail for some months. Leadtimes are expected to remain at the present level for the balance of the year. (Edward M. Straka, C.P.M., Baldwin Hardware Corporation, Reading, PA.)

Tin

During the last six months, tin traded down to the $2.50 range; this floor should now hold. There are still abundant stocks in the world, but to date, there has been reluctance on the part of the producers as well as the financial institutions holding stocks to sell at lower values. The up-side potential is limited by a current lack of demand for the metal. The anticipated trading range for the next six months should be $2.50 to $3.00 with no necessity to commit forward. (John E. Russell, ASEA-Kaiser, Springfield, NJ.)

Aluminum

April's report stated ingot was selling in the low sixties, that it would be in the mid to high sixties by June, and that there would be a domestic capacity of less than 68%. Prices did, in fact, peak in May and June but the domestic price is now back to 60¢ to 62¢ per pound, and capacity is still dropping — now less than 64%.

To confuse the issue, some believe demand and price will increase significantly in 1987 — price as much as 10%, with material being in short supply; others are convinced that consumption will be less in 1987 than 1986, thus making availability no problem.

One may wonder how metal may become tight when imports increased in excess of 40% for the first six months of 1986 and worldwide capacity continues to increase. Furthermore, consumption shows signs of slowing, and unless additional cutbacks are made, oversupply may result. In addition, the increase (4% to 5%) in the recycling industry and the decrease in oil prices, will help to make plastics even more competitive. Conversely, one also wonders what effect the following has: the recent announcement that 1987 cars will have an additional 5 to 10 pounds of aluminum; whether oil will remain at its present low price; and lower interest and subdued inflation rates (which may be temporary in the long run).

A prudent buyer must consider these opposing views, obtain as much information as possible from reliable vendors, and use their company's history and future plans to make the best decision possible. Planned buying may be the most astute; spot purchasing, although it may be economical in the short-term, may be a risk if metal becomes tight. (Ted Campbell, C.P.M., Morris Bean & Company, Yellow Springs, OH.)